

Financial Terms Glossary

Volatility: a statistical measure that describes the frequency and intensity of price fluctuations in an asset. It is usually defined as the standard deviation of the asset's returns over a given time horizon.

Duration: indicates the average life of a fixed-income security (calculated by discounting the expected cash flows, weighted by their amount and the time remaining until they are received). It also serves as a tool to measure the sensitivity of a bond's price to changes in interest rates (thus providing a measure of risk).

Correlation: measures how securities or asset classes move in relation to each other. Highly correlated investments tend to rise and fall in unison, while poorly correlated investments tend to move differently in different market conditions, allowing investors to benefit from diversification. Correlation is measured between 1 (perfect positive correlation) and -1 (perfect negative correlation). A correlation coefficient of 0 denotes no correlation.

Sharpe Ratio: an indicator that measures the risk-adjusted return of an investment, calculating the excess return of an asset above a risk-free rate, divided by its volatility (risk). In an Investment Fund, it indicates how many extra units of return a fund generates for each unit of risk assumed; a higher ratio signifies a better trade-off between return and risk, helping to compare investments and funds more efficiently.

VaR (Value at Risk): statistical measure that quantifies the maximum expected loss that a portfolio or financial asset can suffer over a given period, with a specific level of confidence (probability). In short, it tells you "how much money you could lose at most in a day/week/month, with X% certainty," helping you manage and understand your exposure to market risk.

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